If you recommend the services of a discretionary fund manager (DFM) to your client, you will need to explain to your client why they are being charged ongoing fees. Here is a useful guide to assist you.

1 Be clear from the start

You will need to discuss, document and agree the cost of using a DFM with your client at the outset. This includes explaining the direct DFM charges, as well as your adviser charge. In line with European guidance, you may wish to break down costs in a table format, detailing the DFM annual management fees and charges, and the costs and charges of products. Consider showing some comparisons with other options, including fund of funds offerings.

2 Regular updates

Provide regular statements with your reviews which include breaking down the DFM fee and all third-party investment costs. The actual costs incurred in the DFM portfolio will be shown on our client reporting. This transparent approach will help your client understand the value of the service they receive.

3 Monetary terms

The Financial Conduct Authority (FCA) requires that advisory fees are shown in both percentage and monetary terms. Percentages may confuse some clients who may think fees are lower than they really are.
What services warrant an ongoing adviser charge?

The FCA has clearly listed some of the services that warrant an ongoing adviser charge:

We work closely with you to get a full understanding of your clients’ needs and have developed some questions that will enable you to have a comprehensive discussion about our service with your client. This includes a full explanation of both the costs and the value of our service.

The questions may include:

- Which investment option is appropriate for my clients: bespoke/tailored DFM, DFM managed model portfolios, multi-manager fund or single strategy fund?
- When selecting a DFM, have you considered their reputation, location, investment philosophy and processes, and whether they have in-house financial advisers?
- Do you and your client have direct access to the investment manager or is the investment service provided via a relationship management team?
- What other services does the DFM provide? How much will they help with reporting, account opening and the ongoing monitoring of your clients’ investments, over and above the minimum requirements?

The table below shows where the responsibility lies between the discretionary investment manager and the financial adviser for each of the primary types of discretionary managed solutions that can be provided by a DFM.

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Discretionary Portfolio Service</th>
<th>Managed Portfolio Service</th>
<th>Portfolios on third party platforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment management</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Suitability of investments to meet mandate</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Investment factsheets</td>
<td>N/A</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Transactions</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Custody</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Provision of valuations, statements and</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>performance reports</td>
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<tr>
<td>Anti-money laundering checking</td>
<td>●</td>
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<tr>
<td>Know Your Client (KYC)</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Provision of KYC information and investment</td>
<td>●</td>
<td>●</td>
<td></td>
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<tr>
<td>preferences</td>
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<tr>
<td>Receives information on portfolio</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Monitors investment performance</td>
<td>●</td>
<td>●</td>
<td></td>
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<tr>
<td>Periodically reassesses use of DFM</td>
<td>●</td>
<td>●</td>
<td></td>
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</tbody>
</table>

Key: ● Investment Manager  ● Financial Adviser  ● Third Party
Introducer Or Agent?
A further issue to consider is the nature of the relationship between you the financial adviser and the DFM. The financial adviser can act as introducer or agent.

When an adviser acts as an introducer:

- The financial adviser refers the client to a DFM for the provision of an investment service that supports the financial plan drawn up by the adviser;
- The client signs an investment agreement with the DFM;
- With the help of the financial adviser, the DFM builds up the Know Your Client information together with any individual requirements, tax considerations and assessment of capacity for loss to reach a recommended portfolio for that client;
- The DFM is responsible for the suitability of the investment mandate, investment selections and the suitability of transactions;
- The DFM may rely on the financial adviser for information to keep the DFM updated with any changes in the client’s investment objectives, time scales for investment, attitude to risk and financial situation;
- The client benefits from the specialist services of both the financial adviser and the DFM.

As the client has entered into a contract with the DFM, there is no added requirement for the financial adviser to oversee the specific investments or have oversight of custody arrangements; these are delegated to the DFM. The adviser remains responsible for carrying out initial and ongoing due diligence, so as to be able to justify their choice of DFM provider.

When an adviser acts as their client’s agent under MiFID II:

- The DFM may not require the financial adviser to disclose full Know Your Client information;
- The adviser agrees the terms with the DFM on behalf of the client;
- The adviser must take responsibility to ensure their client receives notification of a 10% fall in portfolio valuation by close of business the same day; and
- The adviser must provide the investor protection measures as required under MiFID II, including quarterly reporting, cost and charges and suitability.

There are additional responsibilities that come with being an agent for financial advisers. In practice, this means ensuring the portfolio matches their client’s aims and capacity for loss. When acting as the agent of the client, the financial adviser retains a duty of care to ensure the investment portfolio meets the required client outcomes whilst not being able to influence the investments that are selected by the discretionary manager.

Often, in these circumstances, a risk-rated portfolio or one designed to meet a set strategy (e.g. income or growth) is used. The financial adviser is limited to recommending a generic investment solution which may not fit with the client’s holistic financial planning needs.

For our Discretionary Service we work with financial advisers on an introducer basis.
Portfolios managed to a set mandate have limitations, for example:

• An individual’s tax is not considered;
• The timing and planning of withdrawals, in line with client needs and market timing, can be difficult in pre-set portfolio structures; and
• The investments can be limited to collectives.

In addition, the financial adviser takes full responsibility to ensure the DFM model used continues to meet the risk categories and client objectives.

This can increase the compliance burden, increase business risk and maybe impact the regulatory permissions of a firm.

This arrangement uses the expertise and service of the investment manager but none of the efficiencies that a division of responsibility can yield. Instead of reducing the workload of a financial adviser, it can add to it.

We provide a clear and transparent charging structure for our proposition, free from excessive administration fees.